3.0 THE BENEFITS OF CONSERVATION OF THE CULTURAL BUILT HERITAGE

3.1 The Growing Awareness

The benefits of conservation - apart from tourism - are usually not immediately visible in the production accounts of our economies. However, over recent years there has been much debate for supporting the continued existence and enhancement of the cultural heritage, conducted mainly in terms of welfare economics and, in particular, merit good arguments, i.e. in favour of a good which is socially desirable independently of the valuation placed on it by beneficiaries. In this an increasingly important part of the debate has focused attention on the economic impact of the heritage. In Britain, there are studies which examine the economic benefits of preserving historic buildings,{1} while in the United States "studies devoted in whole or in part to assessing the economic effects of one or more cultural activities have been conducted in at least twenty-eight US cities and seventeen states".{2}

Both citizens and governments have exhibited a developed and renewed interest in heritage conservation. Those in favour of supporting the heritage have sought to reinforce their arguments by demonstrating that while it may not be the specific function of the heritage to generate economic benefits, such benefits do arise. Levels of favourable tax treatment have risen and changed. Direct expenditure in many countries has increased, even in the face of high inflation in the seventies. Cultural tourism has steadily increased.

Going even further, it is now widely believed and repeatedly demonstrated that there are significant net benefits to conservation which exceed benefits attainable from alternative projects that build anew. This represents a radical departure from the past, when the argument was made that conservation could have significant economic consequence in the long run, but not often in the short run. Thus, when short run market developments threaten to destroy or replace a cultural site, it was argued that government or some other authority should exert efforts to protect and/or make possible the conservation alternative, because this over time would prove economically wise, i.e. efficient. But while current argument holds that older view it also argues the point that with only very little government or policy assistance, conservation projects can compete favourably with projects that tear down and build anew, i.e. they are competitive in the market place in the short run.

8

3.2   Primary Economic Benefits

Assuming a fully operating market system, the economic benefit of any transaction in the market between consumer and producer takes a simple and obvious form of seeking the satisfactions associated with the consumption of cultural goods or services, which have economic value to them.   The seller benefits and the buyer benefits in a free economic exchange and, other things being equal, benefits exceed costs for both parties.   Examples arise where a visitor to a historic house pays an admission fee to an owner in order to tour the historic property, or a consumer buys an antique clock in an antique shop, or an individual purchases an old medieval farmhouse as a residence. These we may call primary economic benefits. The economic aspect can be measured in simple terms.   In education, for an additional year of schooling, the economic benefit is thought to be the differential improvement to net income for the individual. In law enforcement, the benefit is thought to be the reduction in the costs in loss of property, injury and criminal acts. In transport, the economic value of a new stop sign may be to reduce the accident rate and the economic losses attendant on those accidents.

To elaborate primary benefits, let us use the example of the operation of a historic site open to visitors. In a visit to a park, the economic benefit is an estimate of what the visitor is willing to pay. In the operation of a historic property, its admission prices, its income earnings, if any, are a form of primary economic benefit, a benefit that we may see and measure as prices paid. Any form of direct transaction such as admission fees falls into the category. The prices people pay become a proxy statement for the value that they place on the good or service purchased. Similarly, if we think in terms of rents paid by tenants or prices paid by buyers of such properties, the same reasoning holds; they are all forms of prices paid to gain satisfactions in the consuming of forms of cultural goods and services. Other purchases made at the site are also forms of primary benefit, such as souvenirs, etc.

In simple terms, if we include the supply side, the producer's concerns, then economic benefits can be divided into two parts - those impacting consumers and those impacting producers. Between these two sides are flows of money and of goods and services through particular markets. While these flows are in free equilibrium the economy provides those goods and services for which the consumer can pay.

In more complex terms, recreational economics has shown us that while many consumers pay the price they are willing to, and this estimates correctly the value of the good or service to them, others pay less than they would be willing to pay. For these the additional measure of benefit that is over and above the actual price is referred to as "consumer surplus", e.g. an imputed value of unpaid admissions in the case of the historic house. The consumer's surplus reflects the value of the good or service as the

maximum that consumers would be willing to pay.

To further complicate the matter we need to include other forms of primary benefit where relevant, such as the grant or donation either from individuals or private trusts to a conservation project. This is also a price paid for certain satisfactions. If the income is from private sources it is a net benefit less an opportunity cost. If it is also tax deductible, then a portion of the grant or donation benefit is offset on the cost side as a social cost, since the deduction is a tax expenditure, an involuntary gift by other taxpayers.

3.3 Secondary Benefits

A primary transaction sets off secondary spillover or external effects, many of which may have significant consequences. An example would be where a person who makes his living renting boats to fishermen enjoys an increase in business due to diminution in upstream pollution by a power plant. Insofar as they can be exclusively attributed to conservation as opposed to other development projects such secondary benefits all need consideration in the analysis.

External effects can cause both costs and benefits. One positive effect that is often seen to have important economic consequences is the beneficial impact of conservation projects on the land values of nearby properties, as measured by net capitalised income generated after taxes. These land value spillovers are readily measurable because of the distance decay function that we often see occurring in such cases: the land value impact will be reduced as that property is more distant from the conserved property.

Given a rise in land and property values, another form of benefit is an increase to the tax base, which devolves to local government insofar as it collects a property tax. The major gainers in this case are other residents of the city, since the gain comes in the form of net increases to government income from the property tax on these higher values, having the effect of perhaps improving services or reducing taxes for others. This creates an overall social benefit that can be realised if tax assessment are up to date and rates are collected.

Yet another form of benefit may come in the form of energy conservation where buildings are improved to be more energy efficient. Savings of this sort would be attributable to the building improvements and would flow to the owners of the property whether public or private. To measure the amount of this benefit within a single year would be a fairly easy before and after proposition, i.e. the savings in utility service costs.

10

An often mentioned benefit is the stimulation of the net private investment that can often be seen to accompany conservation projects. In this it is essential to determine the net income additions from private investment as a result of the conservation project, over and above what would have been a normal pattern of investment, and estimating the income each generates. There is little question that such investment in the community is desirable to widen the economic base, and that taxpayers, workers and others in the community can benefit from such investments. Perhaps the easiest way to look at them is to determine which are related to the greater attraction to the conservation project, such as cafes, restaurants, souvenir shops, food, merchandise retailing, transportation and other sectors of the local economy. Such spillover effects, as noted above, can create more employment and more income, both personal and governmental.

There are other benefits measures that, like the energy saving, are benefits because they are cost reducing. Such benefits include decreased fire expenditures, on the presumption that property improvements from a conservation project will reduce the cost of providing fire protection service and insurance cost to property holders. A comparison of districts before and after conservation investments would show if fire calls were reduced, and variable costs in fire service are reduced.

The same is true of decreased police expenditures that, like fire services, could be subject to cost reductions in fewer police calls than before. On an annual basis this effect could be significant as far as the variable costs of police service are concerned. On the other hand, we might find that police service costs had increased with conservation if the project brought forth more people and more tourist expenditures. Therefore this category of benefit may not always be a positive, but may be negative. Furthermore, there might simply be a negative transfer payment received by another area of the community, if crime simply moved out. Or we might even find that because of better reporting and enforcement, the crime costs in terms of bodily harm, property crimes, etc. seem to have actually increased. The effect is worth examining on a before and after basis, or on a basis of natural rate vs a greater rate of growth.

There are other service costs that might be reduced in some cases. For example, if school districts are more efficient after the development of a conservation project then there might be reduced school costs. An analysis could be made to see what levels of cost or benefit occur within a time period, to determine who pays and who gains from the impact.

Like the school system, it is possible to find that large projects affect the sanitation system of a community with reduced sanitation expenditures. Benefits come from the reduction perhaps of deaths, or the medical therapy costs of water-born or other environmental disease.

Increased public investments in infrastructure that might occur generally fall into the category of improved public services. Taking this point of view, one might see improvements in parks, streets and other public facilities as the conservation project calls forth further public sector investments.

3.4   Distribution Effects

In the primary and secondary benefits enumerated above we have been concerned with net benefit so the community, on whomsoever they fall. Such identification of net benefit obscures the reality that some groups may lose while others gain. For example a development project may remove a poor segment of the population from a housing area and replace it with a middle-income group. Benefits may be positive and higher than costs, but where we only measure net economic effects the adverse distribution effects of the project may not have been considered in the benefit-cost calculus. Even though the low income group does not suffer,and assuming that the middle-income group benefits, we may find that income distributions have changed simply because the gap between the middles and the lows has increased. Similarly, if the project benefits equalled costs but shifted income from the poor (actually hurt them) to the middle income group, the income shift would not have affected the benefit-cost calculus explicitly. Thus, whether benefits exceed costs, whether costs and benefits are equal, or whether costs exceed benefits, the redistributive effects are not revealed in the normal cost-benefit analysis concerned only with "economic efficiency".

While such redistribution may not be of moment for investment decisions seen at the national level, they are certainly relevant for the local community. We thus need to be certain that they become part of the decision even if they are not part of the benefit-cost efficiency analysis. We cannot accept the standard dictum for public investments that we invest in those cases where the present value of benefits exceeds the present value of costs without also including the second consideration that the new income distribution is socially preferred, at least as explicitly determined by policy makers.

Whatever the case with regard to redistribution effects, it is clear that the analyst ought to provide the decision maker with insights into redistribution impacts. Obviously, most cultural expenditures are seen as elitist in most communities anyway and the shifting of income upwards is a significant problem. Assuming that survey data is available at least in broad form, it is easy enough to determine in the case of the primary benefits, and to some extent in the secondary benefits, just who gains and who loses.

An example is shown as in Table 3.4. Once we have calculated the benefits of an expenditure, we determine who the users of the facility

might be; if the analysis is done after the fact we know who they are. Table 3.4 demonstrates that various amounts of certain kinds of benefits accrue to particular groups of individuals by age, sex, race, income, education, etc. Such information can well be part of any benefit-cost analysis and compels local decision makers to confront the issue of who is directly affected positively or negatively by the expenditure decisions. They need to know the "incidence" of the benefits and costs as they fall to particular social or economic sectors. Once calculated they must make decisions as to trade-offs between equity and efficiency results, insofar as they come in conflict.

The redistribution just noted relates to what economists call "real" or "technological" primary or secondary benefits; people as a whole would be better or worse off in "real terms". But in some instances the redistribution may simply be in what economists call "pecuniary benefits" or "transfer payments". Here there is redistribution of income or wealth, with no net change for the community as a whole. For example, one of the redistributive consequences of conservation expenditures might be to call forth greater total local public spending on preservation project expenses leading to transfer costs on all citizens. But many within a community may accept such further local public expenditure increases while many may not. If local expenditures are made possible through a variety of regressive taxes, there will be a shift in income upward within the community. Indeed, given regressive tax forms, all cultural expenditures within cities are apt to shift income upwards.

These "transfer payments" must also be taken into account in decisions. But they may attract a different weight than the redistribution of "real" benefits.

3.5   Summary of Conservation Benefits

In this chapter we have shown the primary benefits of conservation, broadly derived from the works of conservation themselves on the historic heritage; and then the attraction that the restored heritage provides to people, ranging from the local to the worldwide. From these there are generated secondary benefits. The total benefits of any particular conservation project can thus be wide ranging and are widely distributed throughout the community. Table 3.5A below summarises the benefits.

Since conservation of the heritage is often an alternative to its complete demolition, and the choice between the two is influenced by the comparative benefits, it is useful also to consider Table 3.5B which picks out in principle those benefits which could be expected to be greater for conservation than for competing redevelopment.

TABLE 3.4
HYPOTHETICAL DISTRIBUTION OF BENEFITS FROM A RECREATION PROJECT
AMONG VARIOUS CITIZEN GROUPS FOR A ONE-YEAR PERIOD

Age	Income $ 0-3000		Income $ 3000-10,000		Income $ 10,000 - over		Total	Percentage
	White	Nonwhite	White	Nonwhite	White	Nonwhite		
0-18	$ 10	$ 100	$ 50	$ 10	$ 5	$ 0	175	86%
19-64	3	10	5	2	0	0	20	10
65 years and older	0	2	3	3	0	0	8	4
Total	13	112	58	15	5	0	203	
Percent of total	6%	56%	29%	8%	2%	0%		100%

Note: Also calculate a per capita benefit for each cell.

Source: William S Hendon (1981) *Evaluating Urban Parks and Recreation* (New York: Praeger Publishers) p. 218.

TABLE 3.5A

SUMMARY OF BENEFITS

PRIMARY BENEFITS

Prices paid - for conservation goods and services including any evidence of willingness to pay for consumer goods and services such as admissions, cultural tourism expenditures, purchases of cultural goods and properties, grants and donations (net of tax deductions), etc.

Local visitor values - Consumer surpluses, values in excess of prices paid, the estimated maximum willingness to pay for conservation goods and services.

Shares of consumer surplus appropriated by suppliers - gained by higher prices over and above equilibrium market prices.

Economic development impact - Net incomes to producers and suppliers of cultural goods and services after taxes.

Net indirect effect incomes to the suppliers of cultural producers and suppliers - of cultural goods and services, net of taxes.

Net indirect effect incomes to expenditures by employees of cultural producers and suppliers - Incomes to employees and to the suppliers of the cultural providers.

Induced effect incomes from expenditures in indirect effect round.

Taxes paid in all rounds.

Net job creation arising from direct, indirect and induced rounds.

TABLE 3.5A (ctd)

SUMMARY OF BENEFITS

SECONDARY BENEFITS

A. **SECONDARY BENEFITS OF CONSERVATION PROJECTS:** potential to both conservation or its competing development alternatives.

Land value spillover effects

Increase to land tax base

Energy conservation

Stimulation of private investment

Potential decrease for protection expenditures

Potential decrease in police expenditures

Potential reduction in the economic costs of crime

Potential reduction in schooling costs

Potential reduction in sanitation expenditures

Improved public services

Higher business formation rates

Lower business failure rates

Potential increases in accessibility

Potential reductions in congestion

Potential increases to open space.

TABLE 3.5B

B. SECONDARY BENEFITS THAT COULD BE EXPECTED TO BE GREATER FOR CONSERVATION PROJECTS THAN COMPETING REDEVELOPMENT PROJECTS

Improved aesthetics of the area

Reduction in densities

Increases in arts and crafts employment

Neighbourhood cohesiveness

Stronger neighbouring associations

Economic stabilisation of neighbourhoods

Potential magnet effects for further high quality development

Cluster effect of business and amenities

Community image

More tourism (more employment but perhaps at lower wages)

Attraction of high earnings labour market (in residents and tourists)

Public goods benefits

Option values

Secondary consumer surplus generation

Merit goods benefits

Minimise disturbances in development